

AR07



**Magna
International
Inc.**

**Annual
Report
1973**



Magna International Inc.

Directors : Paul B. Helliwell
Helmut Hofmann
Roy Kennedy
Murray G. Kingsburgh
J. Alex Langford, Q.C.
Burton Pabst
William S. Storey
Frank Stronach

Officers : Frank Stronach, Chairman of the Board and Chief Executive Officer
Burton Pabst, Vice Chairman of the Board - *word sales in US & Can - away a lot of time.*
Helmut Hofmann, President
Murray G. Kingsburgh, Vice President Finance and Secretary

Auditors : Clarkson, Gordon & Co., Toronto

Solicitors : Miller, Thomson, Sedgewick, Lewis & Healy, Toronto

Registrars and Transfer Agents : The Canada Trust Company, Toronto

Banker : The Bank of Nova Scotia, Toronto

Head Office : 355 Wildcat Road, Downsview, Ontario M3J 2N5

A NEW IMAGE

During the fiscal period ended July 31, 1973, the Company adopted a new name, a new logo and a new head office location.

Highlights

	Year Ended July 31, 1973	Year Ended July 31, 1972
Sales	\$23,759,291	\$12,962,720
Profit before the following items	\$ 2,343,189	\$ 1,458,038
Depreciation	\$ 572,795	\$ 401,090
Interest on long-term debt	163,227	146,485
Income taxes	730,200	424,000
Minority interest	69,262	54,561
	\$ 1,535,484	\$ 1,026,136
Profit for the year	\$ 807,705	\$ 431,902
Shares outstanding – common	567,000	551,000
– preference	1,593	1,639
Earnings per common share		
Basic	\$1.44	76.4¢
Fully diluted	\$1.31	70.6¢
Dividends paid		
Common	10¢	10¢
Preference	\$6.50	\$6.50
Working Capital	\$ 1,588,370	\$ 1,176,574

To the Shareholders:

The fiscal period ended July 31, 1973 was an excellent year for Magna International Inc. We are pleased to report that new record highs were reached in both consolidated sales and earnings. The increase of over 80% in both categories can be attributed to a combination of new product lines, a strong demand for automobile parts for the original equipment market in the 1973 model year, and the Company's ability to finance and integrate new production facilities to supply the increased demand.

The forecast by the auto-makers for the 1974 model year shows somewhat of a decrease over the record 1973 level. Despite fluctuations in this market, management feels confident that your Company can maintain a better than average growth. Your Company has been able to date to secure orders which in total should exceed its 1973 sales. We have excellent relationships with all the auto-makers because of our ability to supply on time good quality parts at competitive prices.

Broadening of the Company's business base continues to be a prime objective. We are aware of the importance and the tremendous potential the automobile aftermarket holds. We entered this market in 1973 and our production, such as mufflers, air-conditioning and heater motors, moves at ever increasing levels.

Your Company aims at becoming a true multi-national corporation with shareholders, plants and sales in a number of countries. From a Canadian base, it has now expanded to significant U.S. production capability and intends further expansion in the U.S. without reducing the rate of growth in Canada. The Company's selection of Iowa for its U.S. centre relates to the double objective of a long run plan to serve the agricultural equipment industries centered in Iowa as well as the continued service of the original equipment automotive industry. As the Company obtains orders, production is now and will continue to be allocated to plants based on economic and not on national considerations.

Furthermore, because of the potential we see in the agricultural equipment industry, as well as the appliance industry, your Company more

recently acquired all of the shares of Paul B. Helliwell Ltd. for a purchase price which is fully supported by the value of the machinery and inventories owned by the company acquired. This company is fabricating agricultural equipment, such as tractor cabs, appliance components, such as stove panels and refrigerator doors, as well as heavy automotive stampings.

Your Company's experience in the auto parts business has led to the development of significant technical and engineering knowledge in manufacturing, tool-making, equipment-building and plant design. These skills are applicable to other markets and products. Without seeking to limit growth in the automobile sector, your Company is keenly interested in the development of new types of business involving its present types of skills and capabilities.

We are pleased to report a strengthened management team. Burton V. Pabst has been elected Vice-Chairman with prime responsibility for sales co-ordination and product development. Helmut Hofmann has been elected President. We welcome Paul B. Helliwell to the Board of Directors, and thank all the Directors for their many contributions to a better and stronger Magna International Inc.

Our success to date, our hope for the future are dependant upon the efforts of a great many hardworking skilled employees (many of whom are shareholders in your Company). We take this opportunity to draw attention to their efforts and to express confidence in what they will do in the future. A successful company depends upon an effective partnership between management, employees, and capital represented by bankers and investors. In your Company all these elements contribute to success. We are confident that this effective partnership will continue to flourish.

On Behalf of the Board

FRANK STRONACH
Chairman of the Board
and Chief Executive Officer



**Magna
International
Inc.**

(formerly Magna Electronics Corporation Limited)
(Incorporated under the laws of Ontario)
and its subsidiary companies

Consolidated Balance Sheet

July 31, 1973 (with comparative figures at July 31, 1972)

ASSETS

	1973	1972
Current assets :		
Cash		\$ 68,662
Accounts receivable	\$ 2,933,134	1,888,347
Inventories, valued at the lower of cost or net realizable value	3,157,342	1,666,331
Prepaid expenses	115,964	108,718
Total current assets	<u>6,206,440</u>	<u>3,732,058</u>
Fixed assets, at cost :		
Land	86,090	168,205
Buildings	641,841	1,096,422
Machinery and equipment	6,003,784	4,433,993
	<u>6,731,715</u>	<u>5,698,620</u>
Less accumulated depreciation	<u>2,986,638</u>	<u>2,579,851</u>
	<u>3,745,077</u>	<u>3,118,769</u>
Other assets :		
Mortgages receivable	60,815	61,954
Excess of purchase price of interests in subsidiary companies over fair value of underlying net tangible assets	2,318,462	2,244,878
Debenture issue expense at amortized cost	51,083	58,622
	<u>2,430,360</u>	<u>2,365,454</u>
	<u>\$12,381,877</u>	<u>\$ 9,216,281</u>

On behalf of the Board :

FRANK STRONACH, Director

M. G. KINGSBURGH, Director

(See attached notes)

LIABILITIES

	1973	1972
Current liabilities :		
Bank indebtedness (secured)	\$ 823,167	\$ 490,758
Accounts payable and accrued charges	2,522,068	1,708,496
Income taxes payable	659,030	13,235
Long-term debt due within one year	613,805	342,995
Total current liabilities	4,618,070	2,555,484
Deferred income taxes	95,000	90,000
Deferred income (note 5)	117,630	
Long-term debt (note 1)	2,503,200	2,457,844
Minority interest in subsidiary companies	211,031	141,759
Shareholders' equity (notes 2 and 3) :		
Capital —		
Authorized :		
9,093 6½% cumulative sinking fund preference shares with a par value of \$100 each, redeemable at \$105		
1,000,000 common shares without par value		
Issued :		
1,593 preference shares	159,300	163,900
567,000 common shares	2,596,205	2,468,705
Contributed surplus (note 2)	10,086	9,326
Earned surplus	2,071,355	1,329,263
	4,836,946	3,971,194
	<u>\$12,381,877</u>	<u>\$ 9,216,281</u>

Auditors' Report

To the Shareholders of
Magna International Inc. :

We have examined the consolidated balance sheet of Magna International Inc. (formerly Magna Electronics Corporation Limited) and its subsidiaries as at July 31, 1973 and the consolidated statements of profit and loss and earned surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we

considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies as at July 31, 1973, the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
October 25, 1973.

CLARKSON, GORDON & CO.
Chartered Accountants



Magna
International
Inc.

Consolidated Statement of Profit and Loss and Earned Surplus

Year ended July 31, 1973 (with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Sales	<u>\$23,759,291</u>	<u>\$12,962,720</u>
Profit (including investment income of \$4,730 in 1973 and \$13,334 in 1972) before the following	<u>\$ 2,324,008</u>	<u>\$ 1,438,928</u>
Deduct :		
Depreciation	572,795	401,090
Interest on long-term debt (including amortization of debenture issue expense)	163,227	146,485
Gain on retirement of sinking fund debentures	(19,181)	(19,110)
	<u>716,841</u>	<u>528,465</u>
Profit before income taxes and minority interest	1,607,167	910,463
Income taxes	730,200	424,000
Profit before minority interest	876,967	486,463
Minority interest	69,262	54,561
Net profit for the year	807,705	431,902
Earned surplus, beginning of year	1,329,263	963,296
	<u>2,136,968</u>	<u>1,395,198</u>
Deduct dividends :		
Preference shares	10,510	10,833
Common shares	55,103	55,102
	<u>65,613</u>	<u>65,935</u>
Earned surplus, end of year	<u>\$ 2,071,355</u>	<u>\$ 1,329,263</u>
Earnings per share :		
Basic	<u>\$1.44</u>	<u>76.4 ¢</u>
Fully diluted	<u>\$1.31</u>	<u>70.6 ¢</u>

(See attached notes)

Consolidated Statement of Source and Application of Funds

Year ended July 31, 1973 (with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Source of funds:		
Net profit for the year	\$ 807,705	\$ 431,902
Charges (credits) to operations not involving an outlay (receipt) of funds:		
Depreciation	572,795	401,090
Deferred income taxes	1,000	(46,000)
Amortization of debenture issue expense	3,500	3,700
Funds derived from operations	1,385,000	790,692
Minority interest in subsidiary companies (net)	69,272	54,561
Notes payable	654,500	225,768
Mortgage payable	81,182	103,268
Deferred income (note 5)	117,630	
Mortgage payments received	1,139	131,068
Non-interest bearing notes		347,900
	<u>2,308,723</u>	<u>1,653,257</u>
Application of funds:		
Cost of acquisitions of interest in subsidiary and other companies	230,455	641,900
Less value of common shares issued therefor	127,500	
	102,955	641,900
Mortgage acquired		55,000
Additions to fixed assets (net)	1,014,429	656,000
Decrease in long-term debt (non-current portion)	716,350	402,736
Dividends	65,613	65,935
Redemption of preference shares	4,600	4,675
	<u>1,903,947</u>	<u>1,826,246</u>
Increase (decrease) in working capital	404,776	(172,989)
Working capital, beginning of year	1,176,574	1,294,484
	1,581,350	1,121,495
Working capital of subsidiaries at date of acquisition	7,020	55,079
Working capital, end of year	<u>\$ 1,588,370</u>	<u>\$ 1,176,574</u>

(See attached notes)



Magna
International
Inc.

Notes to the Consolidated Financial Statements

July 31, 1973

1. Long-term debt

- (a) An analysis of the Company's long-term debt is as follows:

	1973	1972
6½% convertible sinking fund debentures due December 1, 1987	\$1,636,000	\$1,755,000
Capital assistance grants—non-interest bearing due 1973 to 1978	119,246	122,637
Mortgages payable (secured by land and buildings of subsidiary companies)—8%, due 1973 to 1993	177,305	215,915
Lien notes payable—9½% to 12%, due 1973 to 1978	883,454	322,132
Industrial Development Bank—7½% due 1973 to 1976	21,000	37,255
Non-interest bearing notes—due 1973 to 1975	280,000	347,900
	3,117,005	2,800,839
Less due within one year	613,805	342,995
	<u>\$2,503,200</u>	<u>\$2,457,844</u>

- (b) The 6½% subordinated, sinking fund debentures, maturing \$75,000 annually with the balance due in 1987, are convertible into common shares at the holders' option on or before December 1, 1977 at the rate of 61.0750 common shares for each \$1,000 debenture.

- (c) Required payments during the next five fiscal years are as follows: 1974- \$613,805; 1975- \$365,218; 1976- \$284,828; 1977- \$256,825; 1978- \$224,865.

2. Preference shares

- (a) During the year the Company redeemed 46 preference shares at a price of \$3,840. The discount of \$760 realized on redemption has been included with contributed surplus.
- (b) Under the conditions attaching to the preference shares the Company is required to establish a sinking fund on or before January 1 of each year for redemption of preference shares of an amount equal to the greater of—
- (i) 3% of the consolidated net profit for the preceding fiscal period after deducting dividends on preference shares, or,
 - (ii) 2% of the par value of the issued and outstanding preference shares at the end of the preceding fiscal period.

3. Common shares

- (a) At July 31, 1973 a total of 101,419 authorized and unissued common shares are reserved for the following:
- (i) The conversion of 6½% sinking fund debentures into 99,919 common shares;
 - (ii) Stock options granted to an employee in respect of 1,500 common shares at \$7.43 per share exercisable at the rate of 300 shares per annum.
- (b) During the year 16,000 common shares were issued for \$127,500 as partial consideration for the purchase of 80% of the outstanding shares of P & F Tool & Die Inc.

4. Acquisitions

During the year, the Company acquired the following companies which were consolidated from the dates of acquisition on the basis of purchase accounting:

- (i) P & F Tool & Die Inc., a newly incorporated company. The Company acquired 80% of the outstanding shares of P & F Tool & Die Inc. which, in turn, ac-

quired the net assets of a partnership, P & F Tool & Die Manufacturing Co., a manufacturer of tools, dies and light stampings, in June, 1973.

- (ii) Vernomatic Limited, a manufacturer of tools, dies and light stampings. The Company acquired all of its outstanding shares in August, 1972.

	<u>P & F Tool & Die, Inc.</u>	<u>Vernomatic Limited</u>
Net assets acquired:		
Net tangible assets at the carrying value of the acquired companies (being fair market value)	\$ 99,483	\$ 57,387
Excess of purchase price over fair value of underlying net tangible assets	<u>30,000</u>	<u>37,356</u>
	<u>\$129,483</u>	<u>\$ 94,743</u>
Consideration paid:		
Cash	\$ 1,983	\$ 94,743
16,000 common shares	<u>127,500</u>	
	<u>\$129,483</u>	<u>\$ 94,743</u>

5. Deferred income and lease commitments

During the year the Company sold certain of its land and buildings and leased back these properties from the purchasers. The excess of the proceeds from sale over net book value of the properties totalling \$124,695 is being amortized over the term of the leases which, in each case, is ten years.

At July 31, 1973 the Company had lease commitments expiring between 1974 and 1983 providing for annual rentals of approximately \$320,000 in each of the next five years.

6. Remuneration of directors and senior officers

During the year remuneration paid to directors and senior officers including certain operational managers of the Company totalled \$264,000.

7. Subsequent events

Subsequent to the year-end, the Company acquired all the shares of a company engaged in the heavy stampings business for \$1,246,866 payable \$396,866 in cash with the balance due in five equal annual instalments. The purchase price is fully supported by the values of the machinery and inventories owned by the company acquired.

independent appraisal of fixed assets. Less than if had set up new. This is Wellinell. Have orders on hand, need heavy stampings

